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C O N F I D E N T I A L KINSHASA 000217

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [CG](#)

SUBJECT: CENTRAL BANK GOVERNOR ON EXCHANGE RATE INSTABILITY

REF: A. KINSHASA 162

[1B](#). KINSHASA 216

Classified By: Econoff Peter Newman for reasons 1.4 b/d

[¶1](#). (C) Summary: Pol/Econ Counselor and econoff met with Congolese Central Bank (BCC) Governor Jean-Claude Masangu on February 2 to discuss exchange rate instability in the DRC. Masangu believes, as does the IMF (Ref A), that the GDRC budget deficit is largely to blame for the depreciation of the Congolese franc (FC) but he intimated that there could also be other external factors that could explain the current slide. The BCC cannot continue to intervene indefinitely to support the franc. End summary.

[¶2](#). (C) During the course of a Feb 2 meeting with BCC Governor Masangu, Pol/Econ Counselor expressed concern about the instability of the Congolese franc. The franc is currently trading at FC 465 to the USD whereas it was at FC 380 to the USD in September 2004. Masangu explained that there is debate within the GDRC about the cause of the instability. The Ministries of Budget and Finance blame the BCC for not effectively managing the exchange rate. Masangu claims that unbudgeted supplementary expenditures resulting from the Congolese armed forces' (FARDC) unexpected deployments in the eastern Congo in June and November 2004 are the primary cause (Ref A).

[¶3](#). (C) Pol/Econ Counselor also asked if there were other factors that could be influencing the exchange rate, such as a crisis of confidence or perhaps intervention from abroad. Masangu said that there certainly was a lack of confidence due to recent political events. He specifically mentioned the MLC's threats to leave the Transitional Government as a particularly destabilizing factor. (Comment: Masangu did not address the question regarding possible foreign intervention. End comment.)

[¶4](#). (C) Masangu readily admitted that the BCC cannot indefinitely inject dollars into the market to cover shortfalls. He stated that the total intervention during the past 6 months has reached over \$70 million, a rate that the BCC's foreign exchange reserves cannot sustain.

[¶5](#). (C) Regarding the 2005 budget, Masangu stated that the IMF Administrative Council in Washington will consider what action should be taken to adjust the budget in light of the depreciation. (Note: The 2005 budget was drafted assuming an exchange rate of FC 415.2 to the USD. End note.) He also stated that the Economic and Financial Commission of the GDRC needs to meet soon on the topic of the budget and the exchange rate and mentioned that the draft budget currently awaiting parliamentary debate may need to be recalled to reflect the depreciation of the franc (Ref B).

[¶6](#). (C) Pol/Econ Counselor asked if the ongoing instability will affect the release of new large denomination notes. Masangu told emboffs that the BCC plans to issue FC 1,000 and FC 5,000 notes in May and FC 10,000 and FC 20,000 notes by the end of 2005. At present, he does not see any reason to change the schedule.

[¶7](#). (C) Comment: The BCC is exhausting its ability to intervene in the exchange market. It is already violating its agreement with the IMF on its net foreign assets holdings (Ref A). If the GDRC runs a budget deficit for 2005 as in 2004 (over \$20 million), the Congolese franc is likely to continue to slowly depreciate. End comment.

[¶8](#). (U) Bujumbura minimize considered.
MEECE